



Finance, Revenue, and Bonding Committee, March 15, 2022

Testimony submitted by Alison Weir, Policy Advocate and Attorney

Greater Hartford Legal Aid

SB 383: Support; SB 384: Support; HB 5403: Support with Modification

Good afternoon, Senator Fonfara, Representative Scanlon, and members of the Finance, Revenue, and Bonding committee. My name is Alison Weir, and I am a policy advocate and attorney with Greater Hartford Legal Aid. I am here on behalf of Connecticut's legal services programs to testify in support **SB 383** and **SB 384** and **HB 5403**, with modifications.

Legal Services supports **S.B. No. 383 AN ACT INCREASING THE APPLICABLE PERCENTAGE OF THE EARNED INCOME TAX CREDIT**, which would increase the EITC to 41.5% of the Federal EITC. Greater Hartford Legal Aid and the other legal services programs in Connecticut provide free civil legal assistance to low-income residents of Connecticut. An increase in the Earned Income Tax Credit would benefit many of our clients, and provide them necessary addition cash that they can use to improve the lives of their families. As demonstrated by the six months of the Federal Advance Child Tax Credit, additional cash can help families secure basic needs, establish emergency savings, and provide a secure foundation for their families.

The Earned Income Tax Credit is a win-win policy for the state and its residents. It serves a number of important purposes in making our tax code fairer, providing low-income working people with cash, and encouraging and rewarding work. It is targeted to those families living on the margins, available to families with incomes less than \$57,414 for joint filers with three children, and up to \$21,430 for single taxpayers with no children. It helps those with incomes well below our state's median income and self-sufficiency standards. It would also benefit the state's economy, as most recipients are more likely to spend the money they receive here in Connecticut. Studies in California have estimated that the credits result in positive local economic impacts of at least twice the amount of EITC dollars received.ⁱ Studies have also linked the EITC to improved health outcomes, particularly for infants and mothers, with greater benefits tied to increased benefits.ⁱⁱ The EITC is tied to increased children's educational performance.ⁱⁱⁱ The EITC is targeted to low-income residents and favors families, as income limits and payments take into account how many dependents and how many taxpayers are in a family when calculating phase out income limits and tax credit amounts. As a refundable credit, it benefits families even when the worker does not make enough to pay much in taxes.

Increasing the state's EITC will increase the positive benefits of the EITC and take one step to closing the enormous gap between rich and poor in the state, and as such, we support this bill as something likely to benefit many of our clients. As the Department of Revenue's recent Connecticut Tax Incidence Study found, workers with low wages pay a disproportionately heavy share of the tax burden.^{iv} An increase in the state EITC would help relieve some of that burden. The governor recently recognized how effective an increase in the EITC could be in helping low-income families by increasing the EITC for a one-time only increase to 41.5%. As governmental officials and nonprofit leadership said at the time, the additional money could serve as funds to help pay the rent or pay for childcare.^v This bill would make this increase permanent. We have a lot of work to do to make Connecticut's tax system fairer, but increasing the EITC would be an important step. I urge the committee and the legislature to pass this legislation.

Legal Services also support **S.B. No. 384 AN ACT IMPLEMENTING THE TREASURER'S RECOMMENDATIONS CONCERNING THE CONNECTICUT BABY BOND TRUST PROGRAM**, which makes some technical and clarifying changes to a significant new program that has the potential to narrow the racial wealth gap in our state.

- Connecticut is home to residents with the highest annual income per capita but also has one of the highest rates of income inequality in the nation. Economic disparities, including the wealth gap, have been widening across America and CT over the past five decades disproportionately impacting communities of color.
- The CT Baby Bonds is designed to benefit those least likely to be able to save for future goals by focusing the investment on babies whose births are covered by the State Medicaid program. This approach will support nearly 16,000 babies a year, which includes more than 40% of all CT births and babies in all 169 of CT's towns and cities based on data shared by the Department of Social Services.
- CT Baby Bonds is designed to help narrow the racial wealth gap by investing directly in children born into poverty and helping those individuals build wealth by using the funds for targeted eligible purposes that have been shown to close the racial wealth gap and break the cycle of poverty, such as— homeownership, education, entrepreneurship, and contributing towards their retirement savings.
- This program will not only directly address the racial wealth gap but will also strengthen the state's economy in the long-term. A 2019 McKinsey study showed that failure to close the racial wealth gap will cost our national economy between \$1 trillion and \$1.5 trillion or 4-6% of the GDP over the next decade, directly affecting Connecticut's economy.

As we understand the changes, the legislation would

- Clarify that deposits need not be from a specific bond issuance, which is not a requirement for any other bond program in the state.
- Increase first year bonding in 2022 from \$50 million to \$100 million so the program is funded prospectively rather than retrospectively.

- Clarify that the Department of Social Services annual birth number report is not a precondition for the State Bond Commission to approve each year's \$50 million authorization.

Most importantly for our clients, the legislation also provides a mechanism for individuals to claim the bonds when they come of age and makes clear that disbursements from the Trust Fund are intended to be free of adverse financial impact to beneficiaries as the disbursements will be tax free and not considered assets or income for the purposes of state benefit programs.

Legal Services are big fans of the Baby Bonds program as a means of addressing the wealth gap in this state. We think the greatest challenge for the program in achieving its promise will be to identify those individuals who are beneficiaries and provide a way to ensure they know of the benefit when it comes due. Thus, we urge all relevant agencies in the state to cooperate in information sharing to the extent necessary to make sure that all eligible beneficiaries are not only identified but also notified of this benefit.

Legal Services supports the concept of **H.B. No. 5403 AN ACT ESTABLISHING A CHILD TAX CREDIT AGAINST THE PERSONAL INCOME TAX**, but we would urge the committee to restructure the program to more closely resemble the recently concluded federal Advance Child Tax Credit, which provided a fully refundable child tax credit to lower income families. The proposed bill would create a two-tiered child tax credit, one that would provide a \$600 nonrefundable credit, in essence for higher income families who pay more in tax, and one that provides a partially refundable \$420 credit, which is capped at not more than 4.5% of the taxpayer's federal Adjusted Gross Income—so families without any earned income cannot benefit at all from this program. In this way, the proposed child tax credit is very unlike the Advance Child Tax Credit.

As numerous studies of the Advance Child Tax Credit found, a refundable tax credit targeted to lower income families, including those without income, can dramatically reduce child poverty and food insecurity, particularly if it is distributed monthly. Lower income families are more likely to spend the credit, rather than save it, thus stimulating the local economy by buying necessities for their families and enrolling their children in childcare. Studies of the Advance Child Tax Credit also demonstrated that it improved the ability of lower-wage workers to go to work, thanks to funds they could use on reliable transportation or child care.

The proposed program rewards those with greater incomes and cuts out the families who most need the additional assistance of a child tax credit. In this way, it serves to continue the great disparity in wealth in the state. There is a chance to make a real dent in child poverty in Connecticut with a more focused program that includes those families most in need of assistance. The concept of a child tax credit is great, but to be most effective, the child tax credit should be more focused and not privilege higher income families at the expense of lower income ones.

Thank you for the opportunity to testify.

ⁱ Natalie Holmes and Alan Berube, “The Earned Income Tax Credit and Community Economic Stability,” Brookings Blog, Nov. 20, 2015, available at <https://www.brookings.edu/articles/the-earned-income-tax-credit-and-community-economic-stability/>

ⁱⁱ Office of the Associate Director for Policy and Strategy, Centers for Disease Control, “Earned Income Credit,” CDC website, Feb. 2, 2022, available at <https://www.cdc.gov/policy/hst/hi5/taxcredits/index.html>

ⁱⁱⁱ Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities blog, Oct. 1, 2015, available at <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>

^{iv} Keith Phaneuf, “Study: Overall, CT tax system hits poor, middle class harder,” CT Mirror, Feb. 28, 2022, available at <https://ctmirror.org/2022/02/28/study-overall-ct-tax-system-hits-poor-middle-class-harder/>

^v Marc Fitch, “Gov. Lamont retroactively increases Earned Income Tax Credit. Democrat leaders say legislation may follow,” Yankee Institute, Jan. 13, 2022, available at <https://yankeeinstitute.org/2022/01/13/gov-lamont-retroactively-increases-earned-income-tax-credit-democrat-leaders-say-legislation-may-follow/>